

Message Text

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SUBJECT: DEPOSIT INTEREST RATES INCREASED.

REF: MEXICO 24.

1. SUMMARY: BANK OF MEXICO INCREASED INTEREST RATES PAYABLE ON SIX AND 12-MONTH TIME DEPOSITS AND CREATED NEW DEPOSIT INSTRUMENT. MOVE LABELED AS MEANS TO INCREASE CREDIT AVAILABILITIES BY ATTRACTING MORE DEPOSITS, THEREBY NOT CONFLICTING WITH ANTI-INFLATION PROGRAM. NEW MEASURE REFLECTS CONCERN OVER VOLUME OF SHIFT FROM PESO TO DOLLAR DEPOSITS AND IMPACT THIS HAS HAD ON PESO CREDIT AVAILABILITIES.

END SUMMARY.

2. ON AUGUST 10, DIRECTOR-GENERAL OF BANK OF MEXICO, ERNESTO FERNANDEZ-HURTADO ANNOUNCED INCREASES IN INTEREST RATES ON 6 AND 12-MONTH TIME DEPOSITS. HE ALSO ANNOUNCED INTRODUCTION OF QUOTE NEW INSTRUMENT WITH VARIABLE MATURITY END QUOTE. THIS NEW INSTRUMENT CAN HAVE ORIGINAL MATURITY OF THREE OR SIX MONTHS AND CAN BE EXTENDED UP TO ONE YEAR. IN CASE OF THREE AND SIX MONTH INSTRUMENT, INTEREST DURING THE FIRST THREE MONTHS IS TEN PERCENT.

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IF HOLDER OPTS FOR ADDITIONAL THREE MONTHS, HE RECEIVES

PREMIUM OF 1.5 PERCENT ON AN ANNUAL BASIS, AND THEN 11.5 PERCENT PER ANNUM FOR SECOND THREE MONTHS, RESULTING IN A 11.5 PERCENT PER ANNUM INTEREST RATE FOR FULL PERIOD. SIMILAR TYPE INSTRUMENT FOR SIX AND TWELVE MONTHS, CARRIES 10.25 INTEREST RATE FOR THE FIRST SIX MONTHS AND 12.5 PERCENT IF HELD FOR THE FULL YEAR. THESE RATES ARE NET OF 21 PERCENT WITHHOLDING TAX AND APPLY TO INDIVIDUALS WITH DEPOSITS IN EXCESS OF \$80,000. RATES FOR OPTIONAL MATURITY DEPOSITS FROM \$8,000 TO \$80,000 AND HELD ONE YEAR IS 11 PERCENT. RATES FOR SIX AND TWELVE MONTH TIME DEPOSITS WITHOUT OPTIONAL MATURITY WERE INCREASED BY 1.25 PERCENTAGE POINTS TO 12 AND 12.75 PERCENT, RESPECTIVELY. RATES FOR SIX AND TWELVE MONTH FIXED TERM DEPOSITS BELOW \$80,000 ARE 10.25 AND 11.25 PERCENT, RESPECTIVELY.

3. INTEREST RATE HIKE PRESENTED AS MEASURE TO INCREASE DEPOSITS AND HENCE, CREDIT AVAILABILITIES. THERE HAS BEEN INCREASING CONCERN AND CRITICISM OF THE GOVERNMENT AND CENTRAL BANK RECENTLY FOR WHAT IS CLAIMED TO BE A CREDIT SHORTAGE. THIS WOULD REFLECT, IN PART, THE IMPACT OF THE SHIFTS FROM PESO TO DOLLAR TIME DEPOSITS WITHIN THE MEXICAN BANKING SYSTEM. RESERVE REQUIREMENTS ON THE LATTER ARE HIGHER THAN ON THE FORMER, THEREBY REDUCING TOTAL CREDIT AVAILABLE. CAPITAL FLIGHT OUT OF MEXICO HAS ALSO HAD SOME IMPACT ON BANKING SYSTEM, BUT THE AVAILABLE DATA IS NOT RECENT ENOUGH TO QUANTIFY THIS. ALSO, PRIVATE BUSINESSES HAVE BEEN RELUCTANT TO ASSUME NEW EXTERNAL DOLLAR CREDITS BECAUSE OF DEVALUATION FEARS. THE VOLUME OF DOLLAR CREDIT EXTENDED TO PRIVATE BUSINESS IN MEXICO IS UNKNOWN BUT IS ESTIMATED TO HAVE BEEN \$5 - 7 BILLION AT THE END OF 1974. AT THE SAME TIME, CREDITS OF PRIVATE MEXICAN FINANCIAL INSTITUTIONS AMOUNTED TO \$13.4 BILLION. DESIRE TO SWITCH TO PESO LOANS HAS INCREASED DEMAND FOR PESO CREDIT.

4. HIGHER YIELD MIGHT ATTRACT SOME MONEY BACK FROM DOLLARS, OR SLOW DOWN THE CONTINUING SHIFT FROM PESO TO DOLLAR ACCOUNTS. IT SHOULD BE NOTED THAT DEPOSIT INTEREST RATES ARE SET BY THE CENTRAL BANK AND ARE SELDOM CHANGED. THEY WERE, HOWEVER, LOWERED AT THE BEGINNING OF THE YEAR LIMITED OFFICIAL USE

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(SEE REFTEL).

5. FERNANDEZ-HURTADO LABELED NEW MEASURES AS CONSISTENT WITH THE GOM'S ANTI-INFLATION POLICIES, PRESUMABLY BECAUSE ANY INCREASED CREDIT WILL BE FINANCED FROM THE INCREASE IN TIME DEPOSITS. IT SEEMS TO US THAT THE NEW MEASURES ARE LARGELY MEANS TO RESPOND TO DEMANDS FOR AN EASIER MONETARY POLICY WITHOUT ACTUALLY DOING MUCH IN THIS REGARD.

6. THE BANK OF MEXICO HAS SET UP A SPECIAL DISCOUNT FACILITY, EFFECTIVE AUGUST 1, TO PERMIT BANKS TO MAINTAIN THEIR LOAN PORTFOLIOS AT LEVELS PREVAILING IN JUNE OR AN EARLIER MONTH, IF MUTUALLY AGREEABLE. THIS MEASURE HAS NOT RECEIVED ANY PUBLICITY, AND WAS INTENDED TO PREVENT A DECLINE IN TOTAL CREDIT AVAILABILITIES THAT MIGHT RESULT FROM THE SHIFT OUT OF PESOS INTO DOLLARS.

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